

Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, and all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of the filing also will be available at the principal offices of OPRA. All submissions should refer to file number SR-OPRA-95-1 and should be submitted by November 9, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 95-25928 Filed 10-18-95; 8:45 am]

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[Release No. 34-36365; International Series No. 868, File No. SR-OPRA-95-2]

**Options Price Reporting Authority;
Notice of Filing and Immediate
Effectiveness of Amendment to OPRA
Fee Schedule Establishing a Fee
Payable by Subscribers to Last Sale
and Quotation Information Pertaining
to Foreign Currency Options**

October 12, 1995.

Pursuant to Rule 11Aa3-2 under the Securities Exchange Act of 1934 ("Exchange Act"), notice is hereby given that on September 15, 1995, the Options Price Reporting Authority ("OPRA")¹ submitted to the Securities and Exchange Commission ("SEC" or "Commission") an amendment to the Plan for Reporting of Consolidated Options Last Sale Reports and Quotation Information ("Plan"). The amendment establishes a fee payable by

subscribers to last sale and quotation information pertaining to foreign currency options ("FCOs"). OPRA has designated this proposal as establishing or changing a fee or other charge collected on behalf of the OPRA participants in connection with access to or use of OPRA facilities, permitting the proposal to become effective upon filing pursuant to Rule 11Aa3-2(c)(3)(i) under the Exchange Act. The Commission is publishing this notice to solicit comments from interested persons on the amendment.

I. Description and Purpose of the Amendment

The purpose of the amendment is to establish a subscriber fee payable to OPRA for access to last sale and quotation information and related information pertaining to FCOs. OPRA's existing subscriber fee currently covers access to all securities options market information emanating from OPRA's participant exchanges, including information pertaining to FCOs. In accordance with the OPRA Plan as amended,² OPRA is authorized to impose separate fees for access to or for the use of information pertaining solely to FCOs, if the participant exchanges that provide a market in FCOs determine to impose separate FCO fees.

A subscriber to OPRA's FCO service will be subject to a monthly fee based upon the number of electronic display or interrogation devices maintained by the subscriber that are capable of displaying or reporting FCO information. The proposed FCO subscriber fee offers volume discounts to larger subscribers by reducing the fee per device as the total number of devices maintained by a subscriber increases. There are four pricing tiers covering the range from one device to 750 or more devices per subscriber.³

The proposed FCO subscriber fee is scheduled to take effect on January 1, 1996. Prior to that time, existing OPRA subscribers will be given notice of the new FCO fee, and an opportunity to indicate whether they wish to continue to receive FCO information and thereby subject themselves to the FCO fee.

The PHLX, as the only exchange currently providing a market in FCOs,

has duly authorized the proposed subscriber fee in accordance with the OPRA Plan. In addition, the PHLX has notified all other OPRA participant exchanges of the proposed fee change.

II. Solicitation of Comments

Pursuant to Rule 11Aa3-2(c)(3), the amendment is effective upon filing with the Commission. The Commission may summarily abrogate the amendment within 60 days of its filing and require refiling and approval of the amendment by Commission order pursuant to Rule 11Aa3-2(c)(2), if it appears to the Commission that such action is necessary or appropriate in the public interest; for the protection of investors and the maintenance of fair and orderly markets; to remove impediments to, and perfect the mechanisms of, a National Market System; or otherwise in furtherance of the purposes of the Exchange Act.

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, DC 20549. Copies of the submission, all subsequent amendments, and all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of the filing also will be available at the principal offices of OPRA. All submissions should refer to file number SR-OPRA-95-2 and should be submitted by November 9, 1995.

For the Commission, by the Division of Market Regulations, pursuant to delegated authority.⁴

Margaret H. McFarland,
Deputy Secretary.

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³ 17 CFR 200.30-3(a)(29).

¹ OPRA is a National Market System Plan approved by the Commission pursuant to Section 11A of the Exchange Act and Rule 11Aa3-2 thereunder. Securities Exchange Act Release No. 17638 (Mar. 18, 1981).

The Plan provides for the collection and dissemination of last sale and quotation information on options that are traded on the five member exchange. The five exchanges which agreed to the OPRA Plan are the American Stock Exchange ("AMEX"); the Chicago Board Options Exchange ("CBOE"); the New York Stock Exchange ("NYSE"); the Pacific Stock Exchange ("PSE") and the Philadelphia Stock Exchange ("PHLX").

² See Securities Exchange Act Release No. 35487, International Series Release No. 792 (March 14, 1995), 60 FR 14984 (March 21, 1995) (Order approving unbundling services for FCOs and Index options).

³ The tiers are as follows:

(1) For 1 device, the fee per device is \$3.00;
(2) For 2-9 devices, the fee per device is \$2.50;
(3) For 10-749 devices, the fee per device is \$2.00; and
(4) For 750 or more devices, the fee per device is \$1.50.

⁴ 17 CFR 200.30-3(a)(29).

[Release No. 34-36367; File No. SR-DGOC-94-06]

Self-Regulatory Organization; Delta Government Options Corp.; Order Approving Implementation of New Procedures Allowing for the Clearance and Settlement of Repurchase Transactions and Reverse Repurchase Transactions

October 13, 1995.

On October 31, 1994, Delta Government Options Corp. ("DGOC") submitted a proposed rule change (File No. SR-DGOC-94-06) to the Securities and Exchange Commission ("Commission") pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Act")¹ to permit DGOC to implement a new system to clear and settle repurchase agreements ("repos") transactions and reverse repurchase agreements ("reverse repos") transactions. On December 19, 1994, January 10, 1995, January 24, 1995, February 13, 1995, and March 3, 1995, DGOC filed amendments to the proposed rule change.² Notice of the proposal appeared in the Federal Register on March 21, 1995, to solicit comment from interested persons.³ On July 12, 1995, and on August 9, 1995, DGOC filed technical amendments to the proposed rule change.⁴ The Commission received two comment letters from one commenter.⁵ For the reasons and subject to the conditions discussed below, the Commission is approving the proposed rule change.

¹ 15 U.S.C. 78s(b)(1988).

² Letters from: Barry E. Silverman, President, DGOC, to Jerry W. Carpenter, Assistant Director, Office of Securities Processing Regulation ("OSPR"), Division of Market Regulation ("Division"), Commission (December 16, 1994); Barry E. Silverman, President, DGOC, to Jerry W. Carpenter, Assistant Director, OSPR, Division, Commission (January 9, 1995); Kathryn V. Natale, Morgan, Lewis & Bockius, to Jerry W. Carpenter, Assistant Director, OSPR, Division, Commission, (January 20, 1995); Kathryn V. Natale, Morgan, Lewis & Bockius, to Jerry W. Carpenter, Assistant Director, OSPR, Division, Commission (February 10, 1995); and Barry E. Silverman, President, DGOC, to Christine M. Sibille, Senior Counsel, OSPR, Division, Commission (March 2, 1995).

³ Securities Exchange Act Release No. 35491 (March 15, 1995), 60 FR 14987.

⁴ See, e.g., notes 16 and 24. Letter from Kathryn V. Natale, Morgan, Lewis & Bockius, to Jerry W. Carpenter, Assistant Director, OSPR, Division, Commission (July 12, 1995) and letter from Kathryn V. Natale, Morgan, Lewis & Bockius, to Christine M. Sibille, Senior Counsel, OSPR, Division, Commission (August 8, 1995). These amendments were technical amendments that did not require republication of notice.

⁵ Letters from Jeffrey Ingber, General Counsel and Secretary, Government Securities Clearing Corporation ("GSCC"), to Jerry W. Carpenter, Assistant Director, OSPR, Division, Commission (June 5, 1995 ["June 5 GSCC letter"]) and July 19, 1995 ["July 19 GSCC letter"].

I. Description of the Proposal

The proposed rule change establishes a trade matching clearance and settlement system for repos and reverse repos in U.S. Treasury Securities that will be offered to DGOC participants. Repo system participants must be approved by DGOC's executive committee,⁶ which will assign to each participant a maximum potential system exposure ("MPSE") limit⁷ and a trading limit⁸ and may assign a participant a position limit for a particular CUSIP.⁹ DGOC's system will clear repo and reverse repo transactions that result from direct agreements between two participants and repo and reverse repo transactions that have been agreed to through the facilities of brokers that have been specially authorized by DGOC ("Authorized Brokers") to offer their services to DGOC participants.¹⁰

⁶ The standards for participation are similar to the standards for participation in DGOC's options clearance system. For example, broker-dealer members must have minimum net capital of \$25 million, and bank or insurance company members must have total equity capitalization of \$500 million.

⁷ A participant's MPSE is the sum of the participant's net exposure from repo and reverse repo positions and the net short position in options as offset by the net long position in options, all as adjusted to reflect a six standard deviation movement in the market price of the underlying treasury securities, minus the total margin placed on deposit with DGOC by that participant and margin funds due and owing from such participant at or before the immediate succeeding settlement time. If the MPSE for a participant exceeds its MPSE limit, the participant must deposit additional margin equal to the excess.

DGOC also establishes a total systemic MPSE is the sum of each participant's individual MPSE and is intended to represent the maximum loss DGOC could incur. The total systemic MPSE may not exceed one-third of the letters of credit or surety bonds that DGOC has in place to secure payments in event of participant default ("credit enhancement facility"). Currently, the credit enhancement facility totals \$100 million with an additional \$50 million in stand-by credit. Before the repo system becomes operational, DGOC will increase its credit enhancement facility to \$250 million with \$50 million in stand-by credit.

⁸ The trading limit will represent DGOC's maximum credit exposure from a participant based on the sum of potential changes (a three standard deviation movement over two days) in a participant's positions that have not been covered by margin on deposit.

⁹ If a position limit is exceeded, DGOC may prevent a participant from opening new positions or may require a participant to reduce its outstanding positions.

¹⁰ Currently, Liberty Brokerage, Inc. and RMJ Special Brokerage Inc. are Authorized Brokers. DGOC will file with the Commission a proposed rule change pursuant to Section 19(b)(3)(A) of the Act prior to the addition of each new Authorized Broker. Such rule filing will include a needs assessment addressing the liquidity and operational demands that the increase in the volume of repos and reverse repos to be cleared through DGOC as a result of the new Authorized Broker will make on DGOC's system and the resources that DGOC has to meet the new demands. Letter from Robert Mendelson, Morgan, Lewis & Bockius, to Jonathan

Participants may submit to DGOC for clearance only those repos and reverse repos that were entered into as principals with other DGOC repo system participants or Authorized Brokers and may not submit repos or reverse repos executed with or for their customers.

DGOC's rules do not purport to govern trading conventions of Authorized Brokers which will use their own communications networks for the purpose of accepting bids and offers and effecting repo and reverse repo transactions that will be cleared through DGOC. After the repo or reverse repo has been executed, the Authorized Broker then will prepare either one trade report, representing both sides of the transaction, or two trade reports, one for each side of the transaction.¹¹ The Authorized Broker then will forward the trade report or reports to DGOC. If two participants entered into a repo transaction directly between themselves, each participant will forward a trade report to DGOC indicating its side of the transaction.¹² If DGOC does not receive a trade report from one of the parties to the transaction, DGOC will contact that party within one half-hour to confirm the trade entered against them.

The trade report must show for each transaction (a) the identity of the reporting party and the counterparty, (b) the type of transaction, (c) the CUSIP number for the underlying collateral, (d) the repo rate for the transaction, (e) the par amount of securities for the total transaction, (f) the par amount of securities for each delivery and the associated money, (g) the trade date and time, and (h) the on-date and the off-date of the transaction.¹³ DGOC will

Kallman, Associate Director, Division, Commission (September 19, 1995).

¹¹ Whether the Authorized Broker prepares one trade report or two trade reports is determined by the Authorized Broker's internal procedures and not by any procedure of DGOC.

¹² Pursuant to DGOC's rules, a participant must provide a trade report to DGOC within one half-hour of the time that the transaction occurs if the transaction occurs prior to 1:30 p.m. If the transaction occurs between 1:30 p.m. and 2:15 p.m., a participant must deliver a trade report to DGOC within five minutes of the transaction. If the transaction occurs after 2:15 p.m., a participant must deliver a trade report to DGOC as soon as possible but in no event later than five minutes after the transaction. With respect to transactions for settlement on another day, a trade report must be delivered to DGOC by 6:00 p.m. of the trade date.

¹³ On-date is the settlement date for the first leg of the repo or reverse repo transaction (i.e., the date the holder of a repo delivers the securities against delivery by the holder of the corresponding reverse repo of payment for such securities). The off-date is the settlement date for the closing leg of the repo or reverse repo transaction (i.e., the date the holder of a repo receives back its securities in exchange for

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review all trade reports to determine if all required information has been submitted and if their contents are valid.

If two separate trade reports are received for a transaction, DGOC will match the two trade reports. In order to be accepted for clearance, the details of the trade reports must agree. If the details do not match, DGOC will return the trade reports to the sending party or parties until all the terms are reconciled. Matching of transactions will be done continuously throughout the day and at the close of each trading day.¹⁴ All trade reports received through an Authorized Broker also will be confirmed by DGOC either orally or via facsimile with the buying and selling participants.

DGOC will be deemed to have accepted a transaction for clearance when DGOC has matched and verified all the information on the trade report(s). However, DGOC will reject any transaction if it causes a participant to exceed its trading or position limits, if the participant has been suspended from the system, or if the transaction is not designated as delivery versus payment. If the transaction is accepted, DGOC will interpose itself as the contraparty to both sides of the transaction. DGOC then will determine if either party must post additional margin as a result of the transaction. Each day participants will receive a written activity report indicating which trades DGOC accepted the previous business day and all trades due to settle that day.¹⁵

DGOC will net trades under two circumstances. If a participant has a repo and a reverse repo with the same underlying collateral and same on-date or off-date,¹⁶ the settlement positions will be netted as to par amount, price, and accrued interest. If a participant renews a maturing repo or reverse repo for the same underlying collateral prior to the off-date for such repo, DGOC will report to the participant the net money difference between the two repo transactions, and the deliver and receive obligations will be netted.

payment to the holder of the corresponding reverse repo).

¹⁴ The close of each trading day will be at 2:30 p.m.

¹⁵ If the on-leg is scheduled to settle on the trade date, participants will not receive confirmation that DGOC has accepted the trade until the day after the on-leg has settled.

¹⁶ The notice of the proposed rule change stated that only off-date settlements would be netted. The July 12, 1995, amendment provides that on-date settlements also will be netted.

The details of the trade will be sent to DGOC's clearing bank¹⁷ along with delivery instructions. Each participant must maintain a bank account in one or more correspondent banks for margin and trade settlements. Because U.S. Treasury securities typically are maintained in book-entry accounts at Federal Reserve Banks and are delivered through the Federal Reserve System's Fed Wire system, the selected correspondent bank must be a depository institution with access to the Fed Wire system.

DGOC will establish delivery cut-off times. For example, in the case of opening repurchase transactions the selling participant must deliver the securities to DGOC's clearing bank against payment no later than one minute prior to the close of the Fed Wire system on the settlement day.¹⁸ DGOC's clearing bank will redeliver such securities to the purchasing participant against payment.

If the selling participant fails to deliver the securities on the settlement day by one minute prior to the close of the Fed Wire system, DGOC has the option to buy-in the securities with the cost of such buy-in being charged to the defaulting selling participant. If DGOC decides to buy-in a defaulting selling participant, DGOC will give the participant written notice of the buy-in which will describe the security, quantity, and price.

If the purchasing participant does not accept all of the securities on the settlement day by one half-hour after the close of the Fed Wire system, DGOC may sell-out the securities with the cost of such sell-out being charged to the defaulting purchasing participant. After the sell-out, DGOC will give the participant written notice of the sell-out which will describe the security, quantity, and the selling price.

DGOC will adapt its existing margining methodology for its options system to incorporate repo transaction and reverse repo transaction exposures. The amount of margin a participant must deposit will be derived from two calculations: Mark-to-market and

performance margin.¹⁹ Margin will be calculated every business day based on the difference between the aggregate net price of all repos and reverse repos and the net value of those positions including the repo interest obligation, at the time margin is calculated.²⁰ Mark-to-market will represent the net amount of the estimated cost to liquidate a participant's under-margined positions offset by the estimated proceeds from liquidation of its over-margined positions. Performance margin will represent an estimate of the net shortfall from the liquidation of a participant's repo positions at the close of the next business day assuming an adverse market movement of three standard deviations based on the last one hundred days closing prices of the underlying Treasury securities.²¹

Prior to 8:00 a.m. of each business day, each participant will be issued a daily margin report which will indicate the participant's margin surplus or deficit. At or before settlement time on each business day, each participant will be obligated to deposit sufficient margin to satisfy the margin deficit shown on the daily report.²² Margin may be deposited in the form of "Central Bank funds"²³ or Treasury bills.²⁴ Treasury bills will be valued at 95% of their market value. All participants will be required to maintain a minimum margin deposit of \$1 million par amount of Treasury bills with a maturity of not greater than 180 days.

In the event of a failure to deliver securities on either the on-leg or off-leg where DGOC does not buy-in the

¹⁹ This is a separate obligation from a participant's obligation to deposit additional margin if it exceeds its MPSE limit.

²⁰ The value of the underlying collateral will be based on an industry accepted source of U.S. Treasury prices. The value of the repo is based on repo broker prices where available and if repo broker prices are not available on a survey of five dealers.

²¹ In order to calculate performance margin, each repo is classified in one of nine sectors based on the maturity date of the underlying collateral. Margin is calculated in each sector based on assumptions of an increase and a decrease in security price. A participant must deposit margin based on the sum of the worst case (either a rise or a decline in value) from each sector. In contrast, when calculating the MPSE, DGOC assumes either a rise in value or a decline in value for all positions.

²² Excess margin deposits will be released to the participant's correspondent bank within six hours after settlement time.

²³ Central Bank Funds is defined as cash balances available for immediate withdrawal in accounts maintained at banks that are members of the Federal Reserve System or any other wire system operated in a similar fashion or possessing similar characteristics or attributes.

²⁴ The notice of the proposed rule change stated that DGOC would accept Treasury notes and Treasury bonds as margin. The August 9, 1995, amendment clarified that these securities will not be accepted for margin purposes.

¹⁷ The clearing bank is the commercial bank that performs the clearance and settlement of repos and reverse repos.

¹⁸ Any delivery made by a selling participant after the one minute prior to the close of the Fed Wire System will be accepted on a best efforts basis, and DGOC will return the collateral to the selling participant if DGOC is unable to delivery to the purchasing participant in good delivery time. DGOC must deliver to the purchasing participant prior to the normal close of the Fed Wire system unless the purchasing participant agrees to accept late delivery.

participant's securities, DGOC will still calculate and if appropriate collect margin deposits from one or both of the parties to the transaction. DGOC also may elect to collect intraday margin if DGOC deems such collection necessary or advisable to reflect a market price change, the size of the participant's positions, the financial or operational condition of the participant, or otherwise to protect DGOC.

II. Comments

The Commission received two comment letters from one commenter opposing the proposal.²⁵ This commenter argues that DGOC's services will adversely affect the safety and soundness of the repo marketplace, will pose risks to the commenter's members that use DGOC's services in ways that the commenter cannot control, and may irreparably harm the potential for effective servicing of the marketplace through efficient linkages.²⁶ DGOC responded, asserting that the commenter has made inaccurate assumptions about DGOC's proposed system,²⁷ and that the public benefits are substantial.²⁸

²⁵ *Supra* note 5.

²⁶ Specifically, GSCC asserts that: (1) DGOC's manual comparison process will create inefficiencies; (2) DGOC has insufficient capacity for the large repo market; (3) DGOC has insufficient financial strength; (4) DGOC's privately-held corporate structure makes it unresponsive to the industry; (5) DGOC's margining system does not pass credits to participants or pay interest on mark-to-market debits; (6) DGOC's system will bifurcate the netting and risk management process for Treasury Securities; and (7) DGOC's filing does not discuss the impact on the national system.

²⁷ Letter from Barry E. Silverman, President, DGOC, and Steven K. Lynner, President, RMJ, to Jerry W. Carpenter, Assistant Director, OSP, Division, Commission (July 7, 1995).

²⁸ DGOC asserts that its comparison process, like GSCC's process, relies on same day batch processing with delivery of reports indicating the confirmations on a next business day basis. DGOC asserts it has sufficient capacity and expertise to handle the repo market based on its experience in options on Treasury Securities gained during the last five years. DGOC believes that its systems are designed to handle any capacity and vulnerability issues that may arise and that its established infrastructure and expertise are suited to conducting clearance, netting, and settlement in the repo market. DGOC believes that it has sufficient financial strength to operate its proposed repo system based on its credit enhancement facility and margining system. DGOC states that even though its corporate structure is for profit, it is still responsive to the industry. For example, DGOC met with many industry members during the development of its repo system.

DGOC believes that its proposed repo system would have a positive effect on the national clearance and settlement system by providing a centralized clearance and settlement facility for repos and reverse repos where government securities are the underlying collateral. DGOC believes that its system will reduce credit risk exposure, decrease capital utilization, reduce transaction flow, and impose efficiency in the marketplace. DGOC also believes that additional systemic benefits will be derived through its

III. Discussion

Section 17A(a)(2)(A) of the Act directs the Commission to facilitate the establishment of a national system for the clearance and settlement of securities transactions.²⁹ Section 17A(b)(3)(F) requires that the rules of the clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.³⁰ For the reasons set forth below, the Commission believes DGOC's system for the clearance and settlement of repo and reverse repo transactions meets these requirements. As a result, the Commission is approving DGOC's proposed rule change implementing such system.

The Commission believes that DGOC's proposed repo clearance system will assist in the development of the national clearance and settlement system by providing a centralizing mechanism for transactions that are currently cleared and settled outside the facilities of a registered clearing agency. These trades may well benefit from DGOC's margining and netting systems and other risk reduction procedures which should decrease the likelihood of failure to settle.³¹ Furthermore, repo transactions executed with an Authorized Broker will be submitted directly to DGOC by the Authorized Brokers. This should result in increased efficiency connected with the clearance and settlement of repo transactions by eliminating the need for the broker-dealer contraparty to enter transaction data with DGOC.³² The Commission therefore believes that DGOC's system with the conditions and limitations set forth above is consistent with the purposes of Section 17A of the Act.

The one adverse commenter argues that DGOC's system does not have sufficient capacity and that its manual

imposition of daily margin requirements which will enhance probability of performance on the part of participants and through its netting which will result in the optimal use of collateral. DGOC also states that by acting as the common counterparty to all repo and reverse repo transactions submitted to it for clearance and settlement, its system will provide additional transparency and access to capital markets.

²⁹ 15 U.S.C. 78q-1(a)(2)(A) (1988).

³⁰ 15 U.S.C. 78q-1(b)(3)(F) (1988).

³¹ The Commission notes that DGOC's netting system is limited in scope. For example, at this time DGOC does not net deliver and receive obligations from options transactions with deliver and receive obligations from repos.

³² It is important to note that participants are not required to settle all trades through DGOC. Instead, only trades entered into through screens designated for that purpose are submitted directly to DGOC.

comparison processes are inefficient. While it is true that DGOC's system is not as fully automated as some other clearance and settlement systems, the Commission has reviewed capacity tests provided by DGOC that indicate that DGOC has sufficient capacity to function appropriately.

Furthermore, DGOC has agreed that it will conduct a needs assessment and an evaluation of liquidity sources and operational capacity upon reaching an average of \$10, \$20, and \$30 billion of outstanding principal amount of repos and reverse repos over a ten day moving period with on time spikes of \$25, \$35, and \$45 billion, respectively. DGOC will provide the Commission with its findings of each of its reviews.³³ When DGOC reaches the \$30 billion threshold, it will file a proposed rule change pursuant to Section 19(b)(2) of the Act.³⁴ It is anticipated that the proposed rule change will request either an increase in DGOC's volume limitations or removal of all volume limitations. The proposed rule change will give the Commission the opportunity to revisit DGOC's systems capacity, operation capability, and liquidity sources. During the Commission's review of DGOC's proposed rule change, the principal amount of outstanding repos and reverse repos in DGOC's system over a ten day moving period may reach but not exceed an average of \$45 billion. Based on these limitations, the Commission believes that DGOC has the capacity to facilitate the prompt and accurate clearance and settlement of repo transactions in a safe and sound manner.

The commenter believes that the absence of a clearing fund results in DGOC having insufficient financial strength. At the time of DGOC's initial registration as a clearing agency, the Commission considered whether the absence of a clearing fund created unnecessary financial risks.³⁵ The Commission determined that, at least initially, DGOC's credit analysis of participants, participant monitoring, margin requirements, credit enhancement facilities, and MPSE limits

³³ Letter from Robert Mendelson, Morgan, Lewis & Bockius, to Jonathan Kallman, Associate Director, Division, Commission (September 19, 1995). DGOC also has agreed to provide semiannual reports on the experiences its has with fails and defaults and liquidity facility usages.

³⁴ The proposed rule changes will incorporate DGOC's needs assessments and evaluation of liquidity resources and operational capacity undertaken when the system reached the \$30 billion threshold. Letter from Barry E. Silverman, President, DGOC, to Larry E. Bergmann, Associate Director, Division, and Jonathan Kallman, Associate Director, Division, Commission (October 10, 1995).

³⁵ Securities Exchange Act Release No. 26450 (January 12, 1989), 54 FR 2010.

provided sufficient safeguards and liquidity to allow DGOC's system to begin operations. The Commission continues to believe that when coupled with DGOC's commitment to reevaluate its systems and controls at various volume levels, DGOC's risk reduction and monitoring procedures are designed to provide adequate protection from the risks presented by the clearance and settlement of repos and reverse repos.

The commenter further argues that DGOC's organization as a corporation without a user governed board results in DGOC being less responsive to industry concerns. The Act does not prohibit for profit corporations from serving as clearing agencies. In fact, the Division's release outlining its standards for clearing agencies notes that the clearing agencies then in existence included profit making entities.³⁶ However, the Division in that release stated that notwithstanding a clearing agency's corporate structure, a clearing agency must provide for fair representation by its participants in the selection of its directors and administration of its affairs. In the first order granting DGOC temporary registration, the Commission found that DGOC was providing representation to its participants in the administration of its affairs through the use of a participants advisory committee.³⁷ However, the Commission recently has been informed that DGOC does not have a participants advisory committee for its options system as required by its rules and by the first order granting DGOC temporary registration.³⁸ DGOC has represented that in order to provide representation to its repo and reverse repo participants, a participants advisory committee for its repo system will be established.³⁹ The Commission believes that the establishment of such a committee will result in DGOC being responsive to industry concerns consistent with the purposes of the Act. The Commission

intends to review the representation provided DGOC's repo and reverse repo participants in connection with any proposed rule filing DGOC should submit requesting an increase or elimination of its volume limitations.

GSCC also argues that DGOC's margining system is inadequate because, unlike GSCC's system, credits are not passed through to participants and interest is not paid on mark-to-market debits. The Commission believes that different clearing agencies may decide to rely on different types of margining systems, as long as the proposed system provides adequate protection to the clearing agency and its participants. The Commission believes that DGOC's margining system provides sufficient protection consistent with DGOC's need to safeguard securities and funds for which it is responsible by taking into account both current and potential price changes in the underlying collateral. DGOC has further protection through imposition of trading limits and MPSE limits. The Commission therefore believes that DGOC's margining system provides adequate protection from the risks presented by the clearance and settlement of repos and reverse repos.

IV. Conclusion

For the reasons stated above, the Commission finds that DGOC's proposal is consistent with Section 17A of the Act.⁴⁰

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁴¹ that the proposed rule change (File No. SR-DGOC-94-06) be, the hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁴²

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95-25930 Filed 10-18-95; 8:45 am]

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DEPARTMENT OF TRANSPORTATION

Federal Highway Administration

Environmental Impact Statement: Logan County, WV

AGENCY: Federal Highway Administration (FHWA), DOT.

ACTION: Notice of intent.

SUMMARY: The FHWA is issuing this notice to advise the public that an Environmental Impact Statement will be

prepared for a proposed highway project in Logan County, West Virginia.

FOR FURTHER INFORMATION CONTACT:

David A. Leighow, Division Environmental Coordinator, Federal Highway Administration, 550 Eagan Street, Suite 300, Charleston, West Virginia 25301, Telephone (304) 347-5329; or, Ben L. Hark, Environmental Section Chief, Roadway Design Division, West Virginia Department of Transportation, 1900 Kanawha Boulevard East, Building 5, Room A-416, Capitol Complex, Charleston, West Virginia 25305-0430, Telephone (304) 558-2885.

SUPPLEMENTARY INFORMATION: The FHWA, in cooperation with the West Virginia Department of Highways (WVDOH), will prepare an Environmental Impact Statement (EIS) for the construction of the Route 10 Man to Logan project in Logan County. The proposed project limits extend from the intersection of WV Route 10 and WV Route 80 at Huff Junction, south of Man, northward approximately 12.5 miles to a connection with the four-lane section of existing WV Route 10 in Logan, West Virginia. The project will be processed as a merged NEPA/404 project.

The proposed highway project is considered necessary to adequately provide for a safe and efficient transportation system to serve the existing and future transportation needs of the area and to address safety concerns associated with existing Route 10.

Alternatives under consideration will include, but are not limited to (1) taking no action, (2) minimal improvement of existing road, (3) where possible, widening the existing two-lane highway to four-lanes, and (4) constructing a four-lane, partially controlled access highway on new location. Additional alignments may be evaluated based upon the results of the preliminary environmental and engineering studies and the public and agency involvement process. Incorporated into and studied with the various build alternatives will be design variations of grade and alignment. Multi-model forms of transportation, such as mass transit, will be considered and addressed as appropriate.

Letters describing the proposed action and soliciting comments will be sent to appropriate federal, state and local agencies, and to private organizations and citizens who have previously expressed, or are known to have interest in this proposal. A scoping meeting will be scheduled. A field view is also planned. Public meetings and a public hearing will be held during the Draft

³⁶ Securities Exchange Act Release No. 16900 (June 17, 1980), 45 FR 41290.

³⁷ Securities Exchange Act Release No. 26450 (January 12, 1989), 54 FR 2010. The Commission found, however, that DGOC had not met the standard for fair representation in the selection of directors. DGOC is currently operating under a temporary exemption from such requirement.

³⁸ Letter from Laura R. Silvers, Attorney, Morgan, Lewis & Bockius, to Christine Sibille, Senior Counsel, and Michele Bianco, Staff Attorney, OSPR, Division, Commission (September 20, 1995).

³⁹ DGOC will provide the Commission with a report on the Participants Committee six months following approval of this proposed rule change. Meeting between Robert Mendelson and Laura Silvers, Morgan, Lewis & Bockius; Barry Silverman, DGOC; Michael Spencer and Declan Kelly, Intercapital Group, Ltd; and Jonathan Kallman, Jerry Carpenter, Gordon Fuller, Christine Sibille, David Turner, and Michele Bianco, Commission.

⁴⁰ 15 U.S.C. 78q-1 (1988).

⁴¹ 15 U.S.C. 78s(b)(2)(1988).

⁴² 17 C.F.R. 200.30-3(a)(12)(1994).